

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6635

BILL NUMBER: HB 1524

DATE PREPARED: Feb 14, 2001

BILL AMENDED:

SUBJECT: Student Loan Tax Credit.

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FUNDS AFFECTED: X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: This bill creates an income tax credit for employees of the state of Indiana or a political subdivision who pay interest on educational loans. It provides that the tax credit may equal up to 50% of the loan interest paid by the employee in a taxable year. The bill also provides that the employee may carry over excess credit to succeeding taxable years.

Effective Date: January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate this credit. These expenses could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *This new credit would reduce individual income tax revenue by approximately \$1.6 M to \$3.1 M in FY 2003.* This bill creates the Educational Loan Interest Tax Credit which would be available to full-time and part-time employees of the state or a local governmental entity. The credit would equal 50% of the interest paid by the taxpayer on student loans during the tax year. For an employee who works for the state or a political subdivision for only part of the year, the credit would be prorated based on the number of days or hours worked.

Data and Estimation: To estimate the number of individuals who might be eligible for this credit and the amount that would be allowed, data from the Department of State Personnel was used to generate a list of state employees between ages 22 and 31. This age group was selected as the most likely cohort that would be carrying debt from student loans. Adjustments were made based on salary levels to determine what percentage would be college graduates and what segment of this group would have postgraduate degrees.

The nation's largest student loan guarantor reports that in 1999 the average student graduating from a four-year institution owed \$10,173, and for students finishing graduate school, the average was \$24,479. Assuming an 8.25% interest rate and repayment periods of eight to ten years, the total amount of interest paid

on educational loans by state employees was estimated to be between \$450,000 and \$900,000 in 1999. A growth rate of 5% was employed to adjust for inflation to project totals through 2002.

Less detailed data was available regarding employees of political subdivisions. The number that may be eligible for the credit was projected by taking the state employee estimate for 1999 (as explained above) and multiplying by an adjustment factor. This adjustment factor represents the difference in 1995 in the number of local government employees versus state employees as reported by the U.S. Census Bureau. The average projected burden on state employees was assumed to be the same for local government employees. The total amount of interest paid on educational loans by local government employees was estimated to be between \$2.2 M and \$4.3 M in 1999.

The Educational Loan Interest Tax Credit would be equal to 50% of the interest paid on student loans for eligible employees. The tax credit is effective for tax years beginning January 1, 2002. *Based on 50% of the expected interest payments of these individuals in 2002, the projected FY 2003 impact is a state revenue loss of between \$1.6 M and \$3.1 M. The revenue loss would continue to grow at approximately 5% annually.*

The credit would not be refundable. However, if the amount exceeds a taxpayer's liability in a given year, the excess may be carried forward for up to ten years. Carrybacks would not be permitted. The annual revenue loss would begin in FY 2003 as this proposal is effective January 1, 2002. Individual AGI Tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Internal Revenue Service, Statistics of Income Bulletin, Spring 2000, Vol. 19, Num. 4; USA Group Loan Services, <http://www.usagroup.com>; U.S. Census Bureau.